.

IN THE UNITED STATES DISTRICT COURT

FOR THE EASTERN DISTRICT OF PENNSYLVANIA

UNITED STATES OF AMERICA	:	CRIMINAL NO.	_____
v.	:	DATE FILED:	_____
SALVATORE DiAMBROSIO	:	VIOLATIONS:	18 U.S.C. § 1343 (Wire fraud - 10 Counts)

I N D I C T M E N T

COUNTS ONE THROUGH TEN

THE GRAND JURY CHARGES THAT:

At all times material to this indictment:

Relevant institutions and their functions

1.   The Philadelphia Stock Exchange (PHLX) was located at 1900 Market Street, Philadelphia, Pennsylvania, and maintained a floor where licensed broker-dealers ("traders") could, among other things, trade stocks over the New York Stock Exchange (NYSE) and the National Association of Securities Dealers Automated Quotation System ("NASDAQ"). In addition, traders on the floor of the PHLX could trade stocks among themselves without going on the open market, in transactions known as cross-trades, provided that the orders in connection with the cross-trade were reported to the market before the cross-trade was executed.

2.   Traders on the floor of the PHLX used stock execution companies to place and fill their orders to buy or sell stock ("orders"). Stock execution companies on the floor of the PHLX employed stock execution clerks to take and cause to be executed orders from traders. After an order was filled, the stock execution clerk provided an order ticket to the trader, which functioned as a receipt and informed the trader of the number and price of the shares which had

been traded.

3. Traders and stock execution companies maintained stations on the floor of the PHLX, where traders and stock execution clerks worked to cause buy and sell orders of stock to be executed.

4. Traders maintained broker-dealer accounts in which stocks were held and traded ("trading accounts").

5. Traders provided electronic access to their trading accounts to stock execution companies in order to permit stock executions to be placed into their accounts.

6. Stock execution companies maintained error accounts which were used to conduct transactions with traders to correct mistakes made in filling orders.

7. Traders and stock execution companies used clearing firms to maintain accounts on their behalf and to conduct banking, bookkeeping, record keeping, and reporting functions in connection with stock trades. The banking, bookkeeping, record keeping, and reporting functions conducted by clearing firms are referred to in the industry as "clearing a trade."

8. Clearing firms provided computer terminals to stock execution companies to permit stock execution clerks to communicate by wire to the clearing firms the trades they executed on behalf of their traders, in order to permit the clearing firms to clear the particular trade. Wire communications from the stock execution clerks to the clearing firm were essential to the successful clearing and completion of a stock trade.

9. Stock execution clerks were not licensed or authorized to trade stocks on their own as traders or on behalf of their stock execution company, and had no discretionary authority to trade stock other than filling the orders placed by licensed and authorized traders.

Relevant Businesses

10. Binary Traders Inc. ("Binary") was an options trading firm operating on the floor of the PHLX, which also bought and sold shares of stock.

11.   D&D Securities, Inc. ("D&D") ran a stock execution company on the floor of the PHLX, which executed stock buy and sell orders of traders, including Binary, its primary client.

12.   Bearcat Inc. ("Bearcat") was an options trading firm, which also bought and sold shares of stock.

13.   Schroder & Co., Inc. ("Schroder") was a clearing firm which cleared trades executed by D&D.

14.   Schroder maintained computer routing facilities at 34 Exchange Place, Jersey City, New Jersey.

Roles of the businesses and individuals involved

15.   Binary's business was selling and buying equity options contracts ("options"), that is, the right to buy or sell a stock at a particular price at a future time.

16.   Binary's profits depended both on the options contracts it held and its stock position, that is, the number of shares it owned in the stocks which were the subject of its options contracts.   As a result, Binary bought and sold stock from the floor of the PHLX to manage its position.

17.   Binary's traders communicated their buy and sell orders to D&D's stock execution clerks, both orally and in writing. D&D's stock execution clerks were then responsible to attempt to buy or sell the given number of shares at the price or series of prices dictated by the order.

18.   Defendant SALVATORE DiAMBROSIO was D&D's senior stock execution clerk.

19.   Defendant SALVATORE DiAMBROSIO was also secretly employed as a trader by Bearcat.

20.   M.H. and N.O., persons known to the grand jury, were D&D stock execution clerks working under the supervision and direction of defendant SALVATORE

3

DiAMBROSIO.

21.   Defendant SALVATORE DiAMBROSIO, and M.H. and N.O., executed buy and sell orders on the open market over the NYSE or NASDAQ.

22.   Stock execution clerks occasionally executed cross-trades between two customers where they were aware that one customer wished to buy, and another customer wished to sell, the same number of shares of a given stock at an agreed upon price.

23.   D&D's stock execution clerks were responsible to cause the execution of buy and sell orders placed by Binary's traders at or very close to the price dictated by the order, and to then provide order tickets to Binary documenting the number of shares bought or sold and the price received or paid.

24.   Schroder provided and caused to be provided computer terminals to D&D in order for D&D's stock execution clerks to report stock trades to Schroder, to enable Schroder to clear the trades executed by D&D's stock execution clerks.

25.   D&D stock execution clerks M.H. and N.O. were compensated for their stock execution work on the basis of a set salary and bonuses.

26.   In addition to salary and bonuses, if any, defendant SALVATORE DiAMBROSIO was paid additional compensation by D&D and Bearcat based upon profits realized by Bearcat and D&D.

27.   Defendant SALVATORE DiAMBROSIO was not licensed or registered to trade stocks on the floor of the PHLX.

28.   When a D&D stock execution clerk submitted orders to execute a cross-trade, the orders were entered through a computer terminal on the floor of the PHLX and routed to Schroder in New Jersey, in order for the cross-trade to be completed. A D&D execution clerk could not effectuate a cross-trade without causing this wire communication between the floor of the PHLX in Pennsylvania and Schroder's facility located in New Jersey.

29.   Schroder generated and maintained records of the trades executed by

D&D, including records known as stock execution journals.

30.   Schroder's records designated trades by "blotter codes" as follows: trades made on the NYSE were designated as "1L" transactions; trades made on the NASDAQ were designated as "5L" transactions; cross-trades were designated as "5D" transactions.

31.   D&D maintained an error account which was created and maintained for the exclusive purpose of rectifying mistakes committed by its execution clerks in making trades on behalf of its clients

32.   Binary maintained several accounts for the purpose of trading options and stocks.

33.   As a stock execution clerk employed by D&D, defendant SALVATORE DiAMBROSIO had access to D&D's error account and to Binary's trading accounts.

34.   As a trader clandestinely employed by Bearcat, defendant SALVATORE DiAMBROSIO had access to Bearcat's trading account.

35.   Binary used a computer program known as the "Error Checker" to confirm that the previous day's buy and sell orders had been executed properly. The "Error Checker" was programmed to determine whether Binary's position (that is, the number of shares it held) of each of its stocks was correct, but was not programmed to check whether Binary had purchased or sold stock at the price ordered.

Relevant trading accounts and error account

36.   Binary maintained trading accounts which were designated in the Schroder order execution journal as "ZEMW," "445F," "445" and "152A."

37.   Bearcat maintained a trading account which was designated in the Schroder order execution journal as "606D."

38.   Schroder maintained an error account on behalf of D&D which was designated in the Schroder order execution journal as "DDEA."

39.   From on or about April 9, 1999, to on or about September 2, 1999, defendant

SALVATORE DiAMBROSIO

devised and intended to devise a scheme to defraud Binary, and to obtain money and property by means of false and fraudulent pretenses, representations and promises.

It was part of the scheme that:

40.   Defendant SALVATORE DiAMBROSIO secretly traded stock and engaged in fictitious trades of stock between D&D and Binary and between and Bearcat and Binary in which Binary was always the losing party, and which resulted in direct losses to Binary of approximately $2,808,856.

41.   Defendant SALVATORE DiAMBROSIO caused D&D to pay him $351,000 in salary and other compensation.

42.   Defendant SALVATORE DiAMBROSIO caused Bearcat to pay him $518,946 in compensation.

"5D/5D" fictitious paired cross-trades

43.   Using the Schroder computer terminals at D&D's stock execution station on the floor of the PHLX, defendant SALVATORE DiAMBROSIO accessed Binary's account, and created two consecutive fictitious cross-trades between Binary and the D&D error account, or between Binary and Bearcat's trading account.

44.   The consecutive cross-trades were designated on Schroder's order execution journal and monthly commission analysis reports with the blotter code "5D."

45.   In no instance of a 5D/5D fictitious paired cross-trade did Binary actually place an order to buy or sell stock.

46.   Each instance of a 5D/5D ficticious paired cross-trade involved the same shares of the stock at the same price on the same day.

47.   In a 5D/5D ficticious paired cross-trade, Defendant SALVATORE DiAMBROSIO falsely entered one cross-trade in the Schroder computer terminals on the floor of the PHLX in which Binary bought a block of stock from the D&D error account or the Bearcat trading account at a given price, and one cross-trade which falsely showed that Binary sold the same block of stock to the D&D error account or the Bearcat trading account at a lesser price.

48.   As a result of each of the 5D/5D ficticious paired cross-trades, the Binary trading account would realize a loss, and the D&D error account or the Bearcat trading account would realize a gain. Defendant SALVATORE DiAMBROSIO was compensated by D&D and Bearcat for the profits realized by the fictitious paired cross-trades made in the D&D error account and the Bearcat trading account.

49.   As a result of the 5D/5D ficticious paired cross-trades, the Binary trading account would maintain its position in the given stock (that is, own the same number of shares), thereby avoiding detection by Binary's Error Checker system.

50.   Defendant SALVATORE DiAMBROSIO would not write an order ticket in connection with any of the 5D/5D paired cross-trades since no Binary trader placed an order to buy or sell stock.

51.   Between April 1999 and September 1999 inclusive, defendant SALVATORE DiAMBROSIO created at least 80 fictitious "5D/5D" paired cross-trades, causing direct losses to Binary in the amount of $2,202,062.50.

"5D/5L" mismatched ticket trades

52.   Defendant SALVATORE DiAMBROSIO accepted and was aware of actual orders from Binary to buy or sell stock.

53.   In instances where Binary placed an order to buy a block of stock, defendant SALVATORE DiAMBROSIO bought the particular block of stock on the open market, at the price designated by the Binary order, but executed the purchase in the D&D error

account or the Bearcat trading account, not the Binary trading account. That same day, defendant SALVATORE DiAMBROSIO sold that same block of stock to Binary in a cross-trade between the D&D error account or the Bearcat trading account and a Binary trading account, but at a higher price than Binary had ordered. Defendant SALVATORE DiAMBROSIO would then issue an order ticket to Binary which falsely stated that Defendant SALVATORE DiAMBROSIO had executed the order that Binary had placed.

54. In instances where Binary placed an order to sell a block of stock, defendant SALVATORE DiAMBROSIO sold the particular block of stock on the open market, at the price designated by the Binary order, but executed the sale in the D&D error account or the Bearcat trading account, not the Binary trading account. That same day, defendant SALVATORE DiAMBROSIO bought that same block of stock from Binary in a cross-trade between the D&D error account or the Bearcat trading account and a Binary trading account, but at a lower price than Binary had ordered. Defendant SALVATORE DiAMBROSIO would then issue an order ticket to Binary which falsely stated that Defendant SALVATORE DiAMBROSIO had executed the order on the open market and at the price specified by Binary.

55. In either instance, Binary's position (that is, the number of shares of the particular stock that it owned) would have changed in accordance with the buy or sell order, but Binary would have bought it for more, or sold it for less, that its order called for, and either D&D or Bearcat profited in the transactions at the expense of Binary. Defendant SALVATORE DiAMBROSIO was compensated by D&D and Bearcat for the profits realized by the mismatched ticket trades made in the D&D error account and the Bearcat trading account.

56. Between April 1999 and September 1999 inclusive, defendant SALVATORE DiAMBROSIO created at least 37 "5D/5L" mismatched ticket trades, causing direct losses to Binary in the amount of $678,793.75.

57. On or about each of the dates set forth below, in the Eastern District of Pennsylvania and elsewhere, defendant

SALVATORE DiAMBROSIO,

for the purpose of executing the scheme described above, caused to be transmitted by means of wire communication in interstate commerce the signals and sounds described below for each count, each transmission constituting a separate count, and each transmission consisting of a wire communication between the Schroder computer terminals located at the PHLX in Philadelphia, Pennsylvania and the Schroder order routing facilities located at 34 Exchange Place, Jersey City, New Jersey in connection with the following stock transactions and purported stock transactions:

count	date	description
1	4/9/99	Purchase by D&D, using the D&D error account designated as "DDEA," of 20,000 shares of Worldcom stock at $89 per share.
2	4/27/99	Fictitious purchase by Binary from the D&D error account designated as "DDEA" of 3,000 shares of AOL stock at $166 per share.
3	5/27/99	Purchase by D&D, using the D&D error account designated as "DDEA" of 10,000 shares of INTEL stock at $51 ¾ per share.
4	6/16/99	Purchase by D&D, using the D&D error account designated as "DDEA" of 20,000 shares of Microsoft stock at $80 per share.
5	7/15/99	Purchase by Bearcat using the Bearcat trading account designated as "606D" of 10,000 shares of Microsoft stock at $93¾ per share.
6	8/3/99	Purchase by Bearcat using the Bearcat trading account designated as "606D" of 12,000 shares of Intel stock at $71¾ per share.
7	8/4/99	Fictitious purchase by Binary from the D&D error account designated as "DDEA" of 10,000 shares of IBM stock at $121 ¾ per share.
8	8/23/99	Fictitious purchase by Binary from the D&D error account designated as "DDEA" of 20,000 shares of AOL stock at $98 ¾ per share.

9	9/1/99	Fictitious purchase by Binary from Bearcat of 10,000 shares of AOL stock at $93 per share, from to the Binary trading account designated "ZEMW."
10	9/1/99	Fictitious purchase by Binary from the Bearcat trading account designated "606D" of 20,000 shares of Intel stock at $85 per share.

All in violation of Title 18, United States Code, Sections 1343.

A TRUE BILL:

_____
FOREPERSON

_____
PATRICK L. MEEHAN
United States Attorney